



RETAIL CLINICS—A NEW CUSTOMER TOUCHPOINT?

Healthcare clinics with limited services become a competitive factor among pharmacy chains

By Mike Faden, Pharmaceutical Commerce, March 30, 2008

The small yet rapidly expanding retail health clinic sector is taking shape—both as an industry and as a modest potential channel for drugs and vaccines—despite lingering questions about the viability of the business model.

The basic concept, as pioneered by independent operators across the country since about 2000, is simple: The typical clinic is a 200- to 500-sq.-ft space located in a large retail store, staffed by nurse practitioners, conveniently open about 12 hours a day and offering a limited set of low-priced services, such as immunizations and treatments for common ailments, on a walk-in basis. Some have physicians on hand.

Behind the storefront, though, major changes are underway. After CVS Caremark snapped up MinuteClinic, the largest of the 20-odd independents in 2006, Walgreens bought Take Care Health Systems last year. Now, these two biggest drugstore chains operate more than two thirds of the approximately 900 existing clinics—and their deep pockets are helping to fund rapid expansion, according to the website MerchantMedicine.com, which tracks the market.

Clinics originally focused on the uninsured and offered services on a cash basis. However, many have since become integrated into the healthcare delivery system, stressing that they complement rather than compete with doctors, accepting insurance and forging referral networks and other links with physician networks and hospital systems. An April 2007 Harris Interactive survey of 2441 clinic visitors found 42% were reimbursed by insurers. Wal-Mart plans to host 400 clinics by 2010, branded with clinic operator RediClinic, and says it will partner with local hospitals and medical practices.

Clinics have cumulatively attracted more than 2 million visits, and consistently get high customer satisfaction ratings. Analysts continue to generate startling growth forecasts—as high as 6,000 to 8,000 clinics by early next decade. If those predictions turn into reality, retail clinics could become a significant channel for prescription drugs and vaccines.

Prescription activity

Mary Kate Scott, principal at Scott & Co. (Marina del Rey, CA) and author of the report *Health Care in the Express Lane: Retail Clinics Go Mainstream*, says that analysis of clinic visit data gathered in 2007 indicated an average 0.5 prescriptions per patient. Based on that figure, if there are 2,500 clinics by 2010 averaging between 20 and 40 visits per day, they could generate 13

million prescriptions a year. Other research suggests the vast majority of those prescriptions are filled at the pharmacy in the store hosting the clinic, she adds.

Most of these prescriptions are for everyday generics such as antibiotics rather than more-expensive proprietary drugs, because 90% of clinic visits are accounted for by a handful of common conditions or treatments such as sinusitis, colds, ear infections, bronchitis, and immunizations.

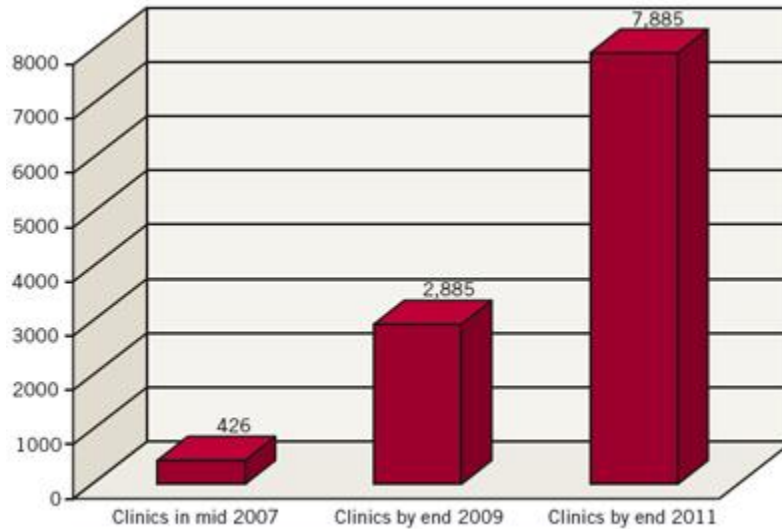


Fig. 1. Projected growth of retail clinics through 2011. Credit: Kalorama Information

Analysts believe clinics will generate not only drug sales but also other revenue for retail stores: Kalorama Information estimates about 7,885 clinics nationwide by 2011 (Fig. 1), and thinks they will drive \$1.4 billion in annual sales of products including drugs at the stores hosting the clinics (Fig. 2). In addition, sales of vaccines to clinics will reach about \$336 million in 2011, Kalorama estimates. The market-research firm believes 3,500 of these clinics will be located in drugstores, driving \$490 million annually in store revenue—including \$348 million in prescription and OTC drug sales.

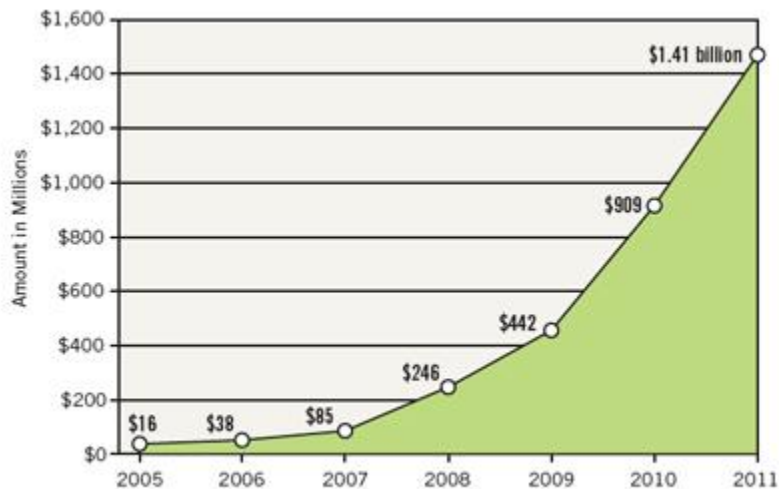


Fig. 2. Projected pharmaceutical sales at retail clinics.

This revenue, clearly, is an attraction for drugstores and other retailers. However, it's little more than a drop in the bucket compared with total chain drugstore pharmacy sales, which topped \$100 billion in 2006.

Drugstores hope clinics will help them establish themselves more broadly as healthcare providers, while attracting new customers: Walgreens says that 20% of Take Care clinic customers who fill prescriptions at the drugstore were not previously Walgreens pharmacy customers.

Sandy Ryan, chief nurse practitioner officer at Take Care Health Systems, emphasizes how the clinics integrate with other healthcare providers to provide patient care, accepting national and local insurance plans and referring patients to other providers when necessary.

She also stressed the strict prescribing protocols: nurse practitioners test for strep throat before prescribing antibiotics, for example. And she says Take Care follows up by calling patients 2-3 days after their visit—a practice that could improve medication compliance. “Patients are delighted, and it gives us a chance to reinforce,” she says.

Ryan says Take Care has also discussed working with Walgreens pharmacies to improve compliance – such as tracking, using electronic prescriptions and medical records, whether patients actually get refills. Backed by Walgreens, Take Care expects to expand from fewer than 150 to 400 clinics this year.

Breaking even

With the big drugstore chains bankrolling expansion of their clinic chains, what are the prospects for independents? Scott argues that being a clinic operator is a tough, capital-intensive business that relies on economies of scale—at least 100 clinics—to offset setup costs and management overheads. She estimates it usually takes 18-24 months for most clinics to attract the 17-23 daily visits needed to break even.

Carl Mercurio, president of Corporate Research Group, said that clinics contacted for a research report in mid-2007 averaged only about 12-13 daily visits; as a result, he estimated annual operating losses at the 548-odd clinics open at that time were about \$90 million. Many independents cannot support those losses, he said. “There has to be a shakeout. I think one or two organizations will emerge as big industry players,” he says. Mercurio predicts that clinics will survive – but with a mostly limited role, providing low-cost for access for people who want the convenience and don't have access to physicians.

Several clinic operators have already run out of cash and closed shop. CheckUps, a New York operator, reportedly closed more than 20 clinics early this year, for instance.

It's not surprising that independent clinic operators are both stressing that they plan to grow to critical mass and seeking ways to differentiate themselves.

An example is Burlingame, CA-based QuickHealth, which currently has 14 clinics open in Wal-Mart, Longs Drugs and Farmacia Remedios stores—and is looking to expand to 200 by 2010,

according to CEO Dave Mandelkern. “We are focusing on serving uninsured working families as our primary customers—our customers generally don’t have a primary care physician,” Mandelkern says. QuickHealth averages between 0.75-1 prescriptions per customer, he says, and low-cost generics at host retailers—such as Wal-Mart’s generics priced at \$4—are particularly important to these mostly uninsured customers.

MedBasics (Irving, TX), also hopes to expand aggressively—to 500 locations by 2010. In addition to the typical range of clinic treatments, the company is adding a “Stay Healthy” line that includes physical examinations, as well as programs for weight management and stopping smoking, says MedBasics COO Stephen Jones. These programs offer the potential to generate year-round income, in contrast to the seasonal nature of many ailments, he said. “I think we really needed Stay Healthy to make a viable entity,” he said.

Scott says it’s inevitable that clinics will expand their services—and suggests that pharmaceutical companies could benefit from getting more involved in that process and with the emerging retail clinic industry in general. “Generally pharmaceutical companies like to shape an industry—thus far, they are just watching,” she says. Clinics provide low-cost services that could make them an ideal way to deliver drugs that need to be administered by infusion, or counseling along with anti-smoking drugs like Pfizer’s Chantix, she says. “As we get more behavior-based drugs that require counseling—that’s what is going to suit this channel,” she says.